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IN THE

Supreme Court of the United States

October Term, 1960.

No. 728

GEORGE ZAHICEK, *et al.*,

Petitioner,

vs.

SOLAVENT METAL AWNING CORPORATION OF AMERICA,

Respondent.

PETITION FOR WRIT OF CERTIORARI.

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IN THE

Supreme Court of the United States

October Term, 1960.

No. .....

GEORGE ZAJICEK, *et al.*,

Petitioner,

vs.

KOOLVENT METAL AWNING CORPORATION OF AMERICA,

Respondent.

PETITION FOR WRIT OF CERTIORARI.

Your petitioner, George Zajicek *et al.*, respectfully prays that a Writ of Certiorari issue to the Court of Appeals for the Ninth Circuit to review the Judgment of that Court affirming the judgment of the United States District Court for the Southern District of California, Central Division, awarding to respondent herein an injunction and accounting for petitioner's net profits if any. A certified copy of the record including all proceedings in the Court of Appeals for the Ninth Circuit is furnished herewith in compliance with Rule 21, of the rules of this Court.

Jurisdiction of the Courts Below.

This suit was commenced in the United States District Court for the Southern District of California, Central Division by the filing of a complaint under the provisions of Title 28, Section 1332(a)(1) of the United

States code in that the matter in controversy was alleged to exceed the sum of $3,000,000 and was between citizens of different states. The jurisdiction of the Court of Appeals for the Ninth Circuit was founded on 28 United States Code Section 1291.

Opinion of the Court Below.

A copy of the opinion of the Court of Appeals for the Ninth Circuit and the Judgment upon which review is respectfully sought are appended in the Appendix to this petition. The opinion is reported at 127 U. S. P. Q. 227, but at the time of preparation of this petition had not been reported in the Federal Reporter. The judgment of the District Court is at R. 107.

Concise Statement of Grounds Upon Which the Jurisdiction of This Court Is Invoked.

The grounds on which jurisdiction is invoked are:

1. That the Court of Appeals for the Ninth Circuit by its judgment has decided important questions of settled law in a way in conflict with applicable decisions of this Court and a Court of Appeals of another Circuit.

2. The Circuit Court of Appeals of the Ninth Circuit has interpreted a section of the California Business and Professions Code in such a way as to subvert the Federal Anti-trust laws to the Statutory Law of California by attempting to make legal under the Statutory Law of California that which is expressly made illegal by the Federal Anti-trust Law.

3. The Circuit Court of Appeals for the Ninth Circuit while holding certain provisions of the contract in suit to be illegal has held them to be severable while

under the law of this Court, those express provisions have been declared to be inseverable.

4. The Circuit Court of Appeals for the Ninth Circuit has failed to recognize that the Trademark Act of 1946 (Lanham Act) 15 U. S. C. Section 1115(b)-(7) prohibits relief in trade-mark cases when a violation of the anti-trust laws is shown to exist.

The judgment of the Court of Appeals for the Ninth Circuit sought to be reviewed was entered on October 20, 1960. A petition for rehearing was filed on November 17, 1960 and said petition was denied by the Court of Appeals for the Ninth Circuit on December 2, 1960. This petition is filed in this Court within ninety days (90) following the denial of said petition for rehearing.

The statute confirming jurisdiction on this Court is 28 U. S. Code, Section 1254. Also 15 U. S. C. 1122.

Questions Presented.

1. Should the Circuit Court of Appeals of the Ninth Circuit be allowed to subvert the Federal law to state contract severability rules.

2. Should the Circuit Court of Appeals be allowed to declare a contract provision admittedly illegal, in restraint of trade, severable, where this Court has declared such provision inseverable.

3. Should the Circuit Court of Appeals for the Ninth Circuit be allowed to fail to declare a patent license agreement illegal containing grantback provisions where the agreement is one of an extensive pattern of similar agreements containing similar grantback provisions and under the settled law of this Court, the use of grantback provisions on such scale is declared illegal.

4. Should the Circuit Court of Appeals be allowed to affirm a judgment to a party, granting an injunction and an accounting for net profits where such party has sued on a contract admittedly containing illegal provisions in violation of the Anti-trust laws of the United States, particularly where the effect of the judgment is to enforce and give body to the very illegal provisions.

5. Should the Circuit Court of Appeals permit respondent to recover for trademark infringement where respondent is with unclean hands resulting from use of the trademark in violation of the Anti-Trust laws of the United States.

Statutes to Be Construed.

15 U. S. C. Section 14:

> "It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States or any Territory thereof or the District of Columbia or any insular possession or other place under the jurisdiction of the United States, or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce."

15 U. S. C. Section 1115(b)(7):

"That the mark has been or is being used to violate the anti-trust laws of the United States."

Concise Statement of the Case.

The respondent contracted with one Albert Belshaw, the contract being a license agreement and franchise involving certain issued patents and the alleged trade name and trademark "Koolvent." The agreement was assigned to one of the petitioners as licensee. Petitioners discovered that of the patents included in the license, the only one that had ever covered any of the subject matter of the agreement had expired before they became licensed. Because of receiving no protection under the agreement, they discontinued payment of royalties.

Respondent brought suit on the contract as a diversity case under Title 28, Section 1332(a)(1) of the United States Code. The District Court gave judgment against petitioners herein for royalties to the time of termination of the contract; for an injunction and an accounting for profits up until such a time as petitioners discontinued use of the name "Koolvent" or "Koolvane." The judgment was affirmed on appeal to the Court of Appeals for the Ninth Circuit. This petition seeks a review of the judgment affirming the judgment of the District Court.

The contract contains two paragraphs 9(e) and 12(a) which are admittedly illegal and a paragraph 10(c) which petitioners contend is illegal.

A copy of the license agreement is attached hereto in the Appendix as Appendix 4.

Respondents contend that clause 12(a) was eliminated from the agreement by a letter of June 18, 1956

which is attached hereto in the Appendix as Appendix 5. However, this letter eliminated only the first sentence of clause(a). The second sentence is of substantially the same scope as clause 9(e). The basis of petitioner's contention is that clauses 9(e) and the part of clause 12(a) remaining in the contract are illegal under the Federal Anti-trust Law, 15 U. S. C. 14 and under the settled interpretation of this law are not severable. This Court has so stated in the cases of *Katzinger v. Chicago,* 329 U. S. 394, and *MacGregor v. Westinghouse,* 329 U. S. 402.

Clause 10(c) relative to grantback provisions in patent license contracts is illegal when practiced on the scale of this case as this Court has indicated in the case of *United States v. National Lead Co.,* 63 Fed. Supp. 513; aff. 332 U. S. 139.

Section 9(e) and the remaining part of Section 12-(a) are also admittedly illegal under Section 16600 of the California Business and Professions Code. The Circuit Court of Appeals of the Ninth Circuit held that this section of the California Business and Professions Code automatically makes the illegal provision severable, and this therefore subverts the Federal law and makes legal that which is declared illegal by the Federal law.

Reasons Relied Upon for the Allowance of Writ of Certiorari.

1. The decision of the Ninth Circuit Court of Appeals in this case is directly contrary to rulings of this Court and another Circuit Court of Appeals.

2. The case presents Federal questions not governed by State contract severability rules; the decision of the

Ninth Circuit Court of Appeals has subverted the Federal law to the State Law of California.

3. The ruling in this case is contrary to the settled law as established in this Court on the issue of illegality of grantback provisions in multiple contracts.

4. Issues of great importance to the public are present in this case since it unsettles the law as to illegality of provisions in restraint of trade under the Federal law, particularly as to patent and trade mark license contracts and unsettles the law as to the unenforceability of contracts containing such provisions, particularly with respect to the doctrine of unclean hands.

5. Failure to reverse the Circuit Court's ruling in this case will be an open invitation to contracting parties to insert illegal provisions in restraint of trade in violation of the Federal Anti-trust Laws in their contracts, to gain the benefit of such clauses by hampering competition, and to do this without risk or penalty to themselves, by standing on this ruling in the event of litigation, that the illegal clause is severable.

6. Issues of great moment to the public are present as to the right of a party to recover for infringement of a Federal trademark registration and/or unfair competition where the trademark owner is guilty of unclean hands in having sued on a contract containing admittedly illegal provisions in restraint of trade and involving the misuse of patents and trademarks in violation of the Anti-monopoly and Anti-trust Laws of the United States.

ARGUMENT.

Clause 9(e) and the Second Sentence of Clause 12(a) of the Contract Are Illegal and Inseverable Since They Extend the Patent Monopoly to Unpatented Goods; the Respondent Is With Unclean Hands and the Judgment in Effect Enforces and Gives Substance to the Illegal Provisions.

The Circuit Court of Appeals of the Ninth Circuit admitted the illegality of Clause 9(e) under California law and the illegality of paragraph 12(a) under Federal Law. The second sentence of paragraph 12(a) remains in the contract, the respondent contending that the first sentence has been eliminated by the letter of June 18, 1956, Appendix 5 appended hereto, that letter applying to paragraph 12(h) of the contract as well.

The Court of Appeals of the Ninth Circuit held that Clause 9(e) was illegal but automatically severable under Section 16600 of the California Business and Profession Code reading as follows:

> "Except as provided in this chapter every contract by which anyone is restrained from engaging in a lawful profession trade or business of any kind, is *to that extent void.*" (Italics added.)

These clauses are illegal under 15 U. S. C. A. Sec. 14.

It is respectfully submitted that these clauses appearing in a patent license contract are illegal as settled in the following cases: *McCullough v. Kammerer*, 166 F. 2d 759, 762 (C. A. 9) Cert. Den. 335 U. S. 813, 93 L. Ed. 368; *The F. C. Russell Company v. Consumers Insulation Company*, 226 F. 2d 573 and *Chamberlin v. Clark Bros.* (D. C. S. D. Cal.) 96 Fed.

Supp. 498. Such clauses are illegal if they apply to periods after termination of a contract.

Pope Mfg. Co. v. Gormully, 144 U. S. 224, 236, 237, 12 S. Ct. 632, 634, 36 L. Ed. 414.

It has been specifically spelled out that clauses of this type in a patent license contract in restraint of trade are expressly inseverable as set forth in the following cases:

Katzinger v. Chicago, 329 U. S. 394, 401, where the Court said:

> "5. If the question of severability, urged by the petitioner here, were a new one, we should again arrive at the conclusion we reached in the Sola case. Metallic's obligation to pay royalties and its agreement to sell at prices fixed by Katzinger constituted an integrated consideration for the license grant. Consequently, when one part of the consideration is unenforceable because in violation of law, its integrated companion must go with it. See Hazelton v. Sheckells, 202 U.S. 71, 78. Moreover, solicitude for the interest of the public fostered by freedom from invalid patents and from restrains of trade, which has been manifest by the line of decisions of which the Scott Paper Co. and Sola cases are two of the latest examples, requires that there should be no departure from the guiding principles they announced."

The principle in these cases involves the same basic principle as in other contracts where the contract is held to be inseverable and wholly illegal where any part of the consideration going to the promise is illegal. This principle is stated in the case of *Hazelton v. Sheckells*, 202 U. S. 71, 78.

The Court of Appeals of the Ninth Circuit is in conflict with the rulings of this Court, and is in conflict with the ruling of the Circuit Court of Appeals of the 7th Circuit in *Metallic v. Katzinger*, 139 F. 2d 291, which held the provision in violation of the Antitrust law inseverable.

Further, where Federal questions such as misuse of patents are involved such questions are not governed by state contract severability rules.

As stated in *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U. S. 402, 407:

> "For the reasons stated in today's Katzinger opinion we hold that the covenant to pay royalties was not severable from the covenant to sell at fixed prices. Since MacGregor invoked federal law to sustain his challenge to the validity of the patent, the alleged misuse of the patent, and the price-fixing covenant, his contentions raised federal questions not governed by state estoppel or contract severability rules. Sola Electric Co. v. Jefferson Electric Co., supra, 176-177 (55 U. S. P. Q. 379, 380-381):* Scott Paper Co. v. Marcalus Co., 326 US 249."

Further, the California Code Section 16600 could not *automatically* make any illegal clause in restraint of trade severable. Even the parties cannot by agreement make a clause severable unless it is legally severable.

17 C. J. S., Sec. 337.

> "However a declaration in the contract that it is divisible is but an aid to construction and will not justify a court in declaring a clause divisible when, considering the entire contract, it obviously is not."

---

*317 U. S. 173.

Illegality of Clause 10(c).

It is respectfully submitted that the Circuit Court of Appeals has not relied on the properly applicable laws as to this section but instead has had recourse to the law where only a single license agreement containing grantback provisions is concerned. The controlling facts are cited below showing that the respondent here admitted to at least sixteen similar license agreements and admitted to having a monopoly in the field of products to which the license agreement related, in thirty-eight states.

The Court of Appeals of the Ninth Circuit relied on the case of *Transparent Wrap Machine Company v. Stokes and Smith* (1947), 329 U. S. 637 for the proposition that grantback provisions in a patent license are not *per se* illegal and unenforceable. The applicable law is clearly the other way where the grantback provisions are in multiple agreements and particularly where the licensor exercises a monopoly or virtual monopoly in the industry as indicated in the case of *United States v. General Electric Company*, 80 Fed. Supp. 989, where it was said:

> "In Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 329 U. S. 637 (72 U. S. P. Q. 148), 1947, a clause requiring the licensee to assign over to the patentee any patentable improvements that might be made by the licensee was held not to be illegal, *per se*, but the Supreme Court remanded the case for an anti-trust finding. On remand, the arrangement was upheld. 161 F. 2d 565 (73 U. S. P. Q. 200) (C. C. A. 2nd. 1947). In that case, however, the contracting parties were two relatively small concerns and were without an extensive con-

trol of market conditions. In remanding the case, Justice Douglas wrote (72 U. S. P. Q. 153-154):

"'We are quite aware of the possibilities of abuse in the practice of licensing a patent on condition that the licensee assign all improvement patents to the licensor. Conceivably the device could be employed with the purpose or effect of violating the anti-trust laws. He who acquires two patents acquires a double monopoly. As patents are added to patents a whole industry may be regimented. The owner of a basic patent right thus perpetuate his control over an industry long after the basic patent expired. Competitors might be eliminated and an industrial monopoly perfected and maintained. Through the use of patent pools or multiple licensing agreements the fruits of invention of an entire industry might be systematically funneled into the hands of the original patentee.'"

This point of view is also set forth in the opinion in *United States v. National Lead Co.*, 63 Fed. Supp. 513 (66 U. S. P. Q. 141), decided by Judge Rifkind in 1945, and affirmed by the Supreme Court in 1947, after the *Transparent-Wrap* case was decided. 332 U. S. 139 (73 U. S. P. Q. 498). In the lower court opinion, one of the factors relied upon in condemning the arrangements between the leading producers in the field, was that they (66 U. S. P. Q. at 150)

"applied to patents not yet issued and to inventions not yet imagined * * *. They embraced acknowledgement of patent validity with respect to patents not yet issued, nor applied for, and concerning inventions not yet conceived * * *."

The trade position of the present defendants closely approximates that of the defendants in the *National Lead* case, and not that which is found in the *Transparent-Wrap* case. The employment of basic patents, or patents which may be basic, to compel the transfer of future patent rights, is condemned *per se*, when practiced on a scale such as is found in this suit. With regard to this question, there would seem to be no difference between licensing a patent with such a condition, and granting an agency conditional on such a clause."

Koolvent had at least sixteen (16) licensees having the same or similar licenses as testified to by Maurice M. Harrison at R. 151:

> "Q. During this period you have been connected with the company, can you tell the Court how many licensees you had? A. The plaintiff had approximately sixteen.
>
> Q. Can you tell the Court in what states they are operating? A. New York, Pennsylvania, Delaware, New Jersey, Ohio, Indiana, Michigan, Illinois, Kentucky, Connecticut * * *."

Maurice M. Harrison testified in his deposition taken September 8, 1958, that all of the awnings of the type shown in the Houseman patent were made by the plaintiff's licensees during the life of the patent.

At page 9, line 21 of the deposition:

> "Q. Now I want to know what percentage of the total awnings of the type shown in the Houseman patent were made by the plaintiff during the life of the Houseman patent?
>
> Mr. Gould: Do you understand the question?

The Witness: Yes, I would have no way of knowing that because I don't know the volume of the ten Southern States that are not included.

Q. Mr. Herzig: Excluding the ten Southern States, what is your answer? A. To my knowledge I would say that we made, that our licensees only made them."

Myer Harrison testified similarly in his deposition taken September 8, 1958, at page 75, line 17 as follows:

"Q. In those 38 States then to revise my question accordingly, plaintiff and licensees of the plaintiff were the only ones who sold awnings of the type shown in the Houseman patent during the life of the Mathews and Houseman patents? A. To the best of my knowledge, yes."

Respondent Has Used Its Mark in Violation of the Antitrust Laws of the United States and Is Barred From Relief for Infringement.

The Lanham Act of 1946 specifically provides for denial of relief in trademark cases when a violation of the Antitrust laws is shown to exist. (15 U. S. C. Sec. 1115(b)(7).)

G. D. Searle & Company v. Institutional Drug Distributors, Inc., et al, May 20, 1957, District Court S. D., California, Central Division (151 Fed. Supp. 715, 720):

"The violation of antitrust laws is pleaded in the Answer under the general claim of 'unclean hands' which is used in cases of this character to prevent enforcement in equity when misuse of a trademark is alleged. 87 C. J. S. Trademarks, Trade

Names, and Unfair Competition, Section 102; Morton Salt Co. v. G. S. Suppiger Co., 314 U. S. 488, 315 U. S. 788, 52 U. S. P. Q. 30, 33; Renaud Sales Co. v. Davis, 104 F. 2d 683, 42 U. S. P. Q. 42; Strey v. Devine's, Inc. 217 F. 2d 187, 190, 103 U. S. P. Q. 289, 291. The Lanham Act specifically provides for denial of relief in trademark cases when a violation of the antitrust laws is shown to exist. 15 U. S. C. Section 1115(b)(7)."

In *Timken Roller Bearing Co. v. United States*, 341 U. S. 593, 598-599, it was said:

"(1) Nor can the restrains of trade be justified as reasonable steps taken to implement a valid trade mark licensing system, even if we assume with appellant that it is the owner of the trademark 'Timken' in the trade areas allocated to the British and French corporations. Appellant's premise that the trade restraints are only incidental to the trade mark contracts is refuted by the District Court's finding that the 'trade mark provisions (in the agreements) were subsidiary and secondary to the central purpose of allocating trade territories.' Furthermore, while a trademark merely affords protection to a name, the agreements in the present case went far beyond protection of the name 'Timken' and provided for control of the manufacture and sale of anti-friction bearings whether carrying the mark or not. A trade mark cannot be legally used as a device for Sherman Act violation. 'Indeed, the Trade Mark Act of 1946 itself penalizes use of a mark 'to violate the antitrust laws of the United States'."

Conclusion.

The respondent herein is in Court with unclean hands as respects any possible cause of action. Respondent sued on a contract which contains provisions illegal under the Federal law and which are not governed by state contracts severability rules. The respondent is not entitled to a judgment in this case and particularly not an injunction which in effect enforces the illegal provisions of the contract which extended the monopoly of the patent to unpatented things not only during the life of the contract but to a period after its termination.

> *Pope Manufacturing Company v. Gormully*, 144 U. S. 224, 236, 237; 12 S. Ct. 632, 634, 36 L. Ed. 414.

Respondent is not entitled to recover for trade-mark infringement.

We respectfully urge that in the public interest and in the interest of uniformity that this Court should review the judgment here involved.

Dated: Feb. 13, 1961.

Respectfully submitted,

ALBERT M. HERZIG,
Attorney for Petitioner.

APPENDIX 1.

Office of the Clerk
U. S. Court of Appeals
P. O. Box 547
San Francisco 1, Calif.

Oct. 20, 1960

Messrs. Herzig & Jessup
Attorneys at Law
727 West 7th Street
Los Angeles 17, California

Received Oct. 24, 1960.

Dear Sir:

In Case No. 16647—George Zajicek v. Koolvent Metal Awaning Corp. of America an Opinion . . . was this day filed, in accordance with which a Judgment or Decree was filed and entered Affirming Judgment or Decree of the Court below.

Pursuant to Rule 26, and unless the mandate is stayed by the order of the Court, or unless a petition for a rehearing of the cause be filed meantime and as provided by Rule 23, a mandate of this Court will be due to issue on the expiration of thirty days from the date hereof.

Very truly yours,

Frank H. Schmid, Clerk.

Oct. 24, 1960. Albert M. Herzig.

APPENDIX 2.

Office of the Clerk
U. S. Court of Appeals
P. O. Box 547
San Francisco 1, Calif.

Dec. 2, 1960.

Messrs. Herzig & Jessup
Attorneys at Law
727 West 7th St.
Los Angeles 17, California

Dear Sir:

The Petition for a Rehearing heretofore filed in case No. 16647—George Zajicek, *et al.* v. Koolvent Metal Awaning Corp. of America was this day denied.

Pursuant to Rule 26, and unless stayed by the order of the Court, a mandate of this Court under said Rule will be due to issue on the expiration of five (5) days from the date hereof.

Very truly yours,

Paul P. O'Brien, Clerk.

Dec. 5, 1960. Albert M. Herzig.

APPENDIX 3.

Opinion of the United States Court of Appeals for the Ninth Circuit.

United States Court of Appeals for the Ninth Circuit.

George Zajicek, Jr.; Don R. Zajicek, Koolvent Awnings of America, Inc., a corporation, KoolVent of California, Inc., a corporation, and KoolVent Awnings of Los Angeles, Inc., a corporation, Appellants, vs. KoolVent Metal Awning Corporation of America, a corporation, Appellee. No. 16,647. Oct. 20, 1960.

On Appeal from the United States District Court for the Southern District of California, Central Division.

Before: Stephens and Barnes, Circuit Judges; and Kilkenny, District Judge.

Barnes, Circuit Judge:

Appellee brought this action in the district court for royalties under a contract, for damages and injunction for unfair competition after termination of the contract, and miscellaneous other relief. The district court granted interlocutory judgment for appellee, and from this judgment appellants press this appeal. Jurisdiction below was based on 28 U. S. C. §1332. This court has jurisdiction on appeal. 28 U. S. C. §1291.

I—FACTS

Appellee KoolVent owns a group of patents and trademarks in the metal awning field. They do some manufacturing and selling, have granted rights under the patents and also have licensed groups to manufacture and sell, using their patents and trademarks. The

licensees also receive advertising copy and sales material, and have the benefit of extensive nationwide advertising paid for by KoolVent.

In 1949 KoolVent licensed one Albert Belshaw to make and sell awnings. In June of 1956 the license was assigned to appellants in this action. The agreement provides that licensees are to pay royalties of twelve and one-half cents per square foot for awnings sold, and are to remit payment on the tenth of the following month. The license provides for a minimum royalty of $15,000 a year, payable monthly.

Commencing with January of 1957, appellants failed to remit payments for royalties, or to make reports showing sales of royalty items during this period. Finally, in August of 1957, KoolVent gave notice in writing that it considered the license terminated.

After the license was so terminated, appellants continued to make and sell awnings and other devices under the name KoolVent. They continued to use advertising material and selling material provided by appellee during the period of the license.

Sometime after the filing of the complaint in this action appellants commenced selling the same products under the trade-name "KoolVane," and continued to do so until the time of judgment.

The judgment[1] provides for the following relief: (1) Judgment for the amount of minimum royalties from January to July 1957, less amounts paid, plus interest.

---

[1]Findings of Fact, Conclusions and Judgment, as originally prepared, were inadvertently signed by the court on May 21, 1959. By order dated August 31, 1959, revised Findings, Conclusions and Judgment, also dated August 31, 1959, were signed and filed.

(2) Injunction against use of "KoolVent," "KoolVane" or any colorable imitation of those trade-marks. (3) Relinquishment by appellants to appellee of all advertising matter, circulars, etc., all drawings, templates, patterns and customer lists for awnings and umbrellas. (4) An accounting of any net profits accruing to appellee from January 1957 to the time when appellants shall cease the use of the trade-mark "KoolVent . . . or the confusingly similar trade-mark 'KoolVane.'" A special master was appointed to take evidence on the accounting, and any future colorable imitation of the trade-name. (The conclusions of law provide that appellee shall have judgment for the net profits, but the judgment does not, except inferentially.) (5) Costs.

We note the most important *patent* involved in the license, the Houseman Patent, expired in 1954.

II—APPELLANTS' CONTENTIONS

Appellants allege some twenty-five errors. Much of appellants' argument would seem inapposite in view of the nature of the judgment. We shall discuss the primary positions taken by appellants in turn.

(1) *There is no basis on which appellee is entitled to royalties.*

This argument assumes that the trial court gave plaintiff recovery for royalties after the termination of the contract. As we read the judgment, the trial court awarded damages based on *net profits* after the termination of the contract. We fail to see how this is directly related to either the $15,000 minimum payment or the twelve and one-half cent per square foot royalties payable under the license.

Appellants argue from *Fageol & Tate v. Baird-Bailhache Co.*, 1931, 138 Cal. App. 1, 4, 5 P. 2d 75, 76,

that the licensor could either terminate the contract upon default or could continue the contract in force and insist on payment of royalties as they accrued. "They could not do both." Appellee cites *Seagren v. Smith*, 1944, 63 Cal. App. 2d 733, 147 P. 2d 682, for the proposition that if the licensee continues to take advantage of the benefits of the contract after termination, then the licensor can recover royalties on a theory of implied contract. Appellants point out that in *Seagren* it was the licensee, not as here the licensor, that terminated.

While this discussion raises an interesting point, we feel it inapplicable to this case, in view of the language of the judgment.

(2) *No royalties could accrue after expiration of the patent, even assuming an enforceable agreement.*

This argument seems applicable, but only to the limited portion of the judgment which allowed recovery of the minimum royalty from January to July of 1957. We are asked to assume that the only benefit obtained under the license was the right to manufacture under the Houseman patent, which had expired in 1954. The argument, citing *Bettis v. Kleaver*, 1951, 104 Cal. App. 2d 821, 825, 233 P. 2d 82, 84, is that the law presumes that royalties are not to be paid after the expiration of the patent, though the parties may contract otherwise. Appellants state that there are no other patents in force.

Appellee concedes the correctness of appellants' legal position, but points out the following facts: (a) There are other patents in force (Exhibits, pp. 313-360); (b) the intention to pay royalties after expiration was expressed in the contract (Clause 9(a), Agreement) and

clearly expressed; (c) the rights to the trade-marks still exist.

Appellee characterized the contract as permissive—that appellants can use any or all of the various patents and marks, but need not use any of them. With this, in view of its terms, we agree.

(3) *The illegality of the contract.*

This is the principal point urged on this appeal. Appellants complain of three of the clauses in the contract as being illegal; thus voiding the contract. Even if the contract were illegal it would only affect the judgment *as to the minimum royalties allowed for the January to July 1957 period.* As to the remaining time it seems clear that appellants were using appellee's other property. Illegality would require a remand, as the "equities" of the situation would be affected by this change in the judgment. The trial judge disposed of the illegality problem in Finding 15, which reads as follows:

> "That it is not true that those portions of the Agreement requiring said Defendants to pay to Plaintiff royalties as hereinbefore found are unenforceable at law or in equity on account of the provisions of said Agreement."

We consider each of the alleged causes of illegality in turn:

(a) *Illegality of Clause 9(e).*

Clause 9(e) restricts the licensee for two years after termination of the license. Undisputably this clause is illegal.[2]

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[2]Clause 9(e) reads: "In the event of termination, LICENSEE, its principals, officers, or managing directors shall not directly or indirectly engage in the awning business in said territory or

Appellants urge that the clause is inseparable from the rest of the contract, and thus voids the whole contract. They argue that since there was no attempt to separately state which of the various considerations were equivalents, the contract cannot be broken down and saved. Appellants cite and rely upon California Civil Code §1608:

> "Illegal consideration: Effect of its illegality. If any part of a single consideration for one or more objects, or of several considerations for a single object, is unlawful, the contract is void."

Appellants cite cases in which this section has been applied to void a contract, most of which concern a much more important part of the consideration.

Appellee points out that the clause is void only because of California Business & Professions Code §16,600, which reads as follows:

> "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is *to that extent void.*" (Emphasis added.)

Appellants emphasize that this section provides that the contract be void only as to the illegal portion. We think the code sections must be construed together, and that the specific language controls the general. The California Business & Professions Codes were enacted by the state legislature after the Civil Code sections, and presumably with the general language of the Civil Code in mind. It was the legislative intent to make such a contract as this severable. Thus, reading the two code sections together, we cannot hold as a matter

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in the territory of any other KOOLVENT licensee for the period of two years following the date of such termination."

of law that the trial court was in error in differentiating the *Hazelton* rule and holding the contract severable. *Hazelton v. Sheckels*, 1906, 202 U. S. 71.

(b) *Illegality of Clause 10(c).*

Clause 10(c) provides for the grant-back of any related patents developed by the licensee.[3] Appellants assert that this clause is illegal under *United States v. Aluminum Company of America*, S. D. N. Y., 1950, 91 Fed. Supp. 333.

Appellee points out that in the *Aluminum Company* case the grant-back provisions were held illegal only "in the peculiar context of the industry," and that there "these particular grant-back provisions constituted a potential restraint." Appellee further cites *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 1947, 329 U. S. 637, which held that the inclusion in a license of the condition requiring the licensee to assign improvement patents is not *per se* illegal and unenforceable. We agree. This is a matter for determination by the trial court, and we cannot rule his interpretation was clearly erroneous.

(c) *Illegality of Clause 12(a).*

On its face, Clause 12(a) is undisputably invalid.[4]

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[3]Clause 10(c) reads: "In the event LICENSEE or any of its employees shall make or acquire any invention or improvement relating to the licensed inventions, then the LICENSEE shall disclose and communicate such invention or improvement to KOOLVENT and shall aid and assist in acquiring patent protection thereof at the expense of KOOLVENT. Any such invention or improvement shall be assigned to KOOLVENT, together with all patents rights thereunder so that LICENSEE and all other licensees of KOOLVENT shall have a non-cancellable royalty-free license as to any such inventions or improvements during the life of this agreement."

[4]Clause 12(a) reads: "LICENSEE, its principals, officers or managing directors will not, directly or indirectly, during the life

It prevents the licensee from making or selling during the life of the contract any other awnings.

However, by an agreement dated June 18, 1956,[5] the

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of this contract make or sell any other awnings. This provision shall apply particularly to said principals, officers, or managing directors of LICENSEE more especially, in case of severance of such relationship, for a period of two years from the date of such severance."

[5]This agreement was in the form of a letter, the complete text of which is as follows (Appendix 2, Appellee's Brief):

"June 18, 1956

Messrs. George Zajicek, Jr.
and Don R. Zajicek
c/o Mr. Albert H. Hill
KoolVent of California, Inc.
5510 W. 104th Street
Los Angeles 45, California

Gentlemen:

This is with reference to an 'amendment' dated October 5, 1949 to a license agreement of the same date between KoolVent Metal Awning Corporation of America as licensor and Albert Belshaw of Detroit as licensee.

(1) Said amendment referred to a limitation whereby said licensee would be required to make awnings of the 'jammed' pan type in California. Said limitation has not been in effect for a number of years, and in fact, we do not believe Belshaw's successor, KoolVent of California, has been making awnings of the 'jammed' pan type since that time.

(2) Said amendment refers also to a license issued to a prior licensee of five California counties in which there was at the time a question of default on the part of the licensee for those counties. As a matter of fact, that license was abandoned shortly thereafter.

Neither of the above two restrictions is now in effect, and this letter will be your written assurance thereof.

For your further information, the restrictions in the first sentence of section 12 clause (a) of the License Agreement and in clause (h) of the same section are no longer in effect.

This letter is sent you in quadruplicate so that all copies may be signed by you and by us, with two copies to be returned to us, with all copies to be attached to the License Agreements.

KOOLVENT METAL AWNING
CORPORATION OF AMERICA
By .....(illegible).....
Vice President

Coleman Harrison
Secretary

Agreed to:
George A. Zajicek, Jr.
Don R. Zajicek"

parties excised the clause, and agreed that this clause was no longer a part of the contract. Appellee cites two cases in support of the curative effect of removing the objectonable clause. *Westinghouse Electric Corp. v. Bulldog Elec. Products Co.*, 4 Cir., 1950, 179 F. 2d 139, 145; *Standard Oil Co. v. United States*, 1931, 283 U. S. 163, 181. The latter case is an antitrust action which did not involve enforcement of the contract in question, and is inapposite. *Westinghouse* seems to be collateral authority, although the offending clauses were removed by letter agreement, as is the case here. But again that action was for patent infringement, and did not involve directly the offending contracts. Appellants cite no authority to the effect that a clause cannot be amputated in this fashion. In *Fong v. Miller*, 105 Cal. App. 2d 411, 414, 233 P. 2d 606, it appears the waiver came when suit was filed.

If this clause be inseverable, the contract would have been void in its inception (*McCullough v. Kammerer Corp.*, 9 Cir., 1948, 166 F. 2d 759), and the letter agreement would not constitute a new, valid contract. But it seems highly unfair to this court that we should be asked to knock out the entire contract when the clause was apparently never enforced (unlike the factual situation in *McCullough, supra*), and the licensor voluntarily relinquished his rights under the illegal clause long prior to litigation. We choose to regard the clause as severable, as did the court below, and preserve the contract. *United States Consol. S. R. Co. v. Griffin & Skelley Co.*, 9 Cir., 1903, 126 Fed. 364.

The California courts have continually strained to put such a construction on covenants in restraint of trade as to save part of the contract, if possible. *Ed-*

wards v. Mullin, 1934, 220 Cal. 379, 30 P. 2d 997. If the portion of the contract restraining trade can be severed, it is the apparent policy of the California courts to rule that it shall be, and the part not so tainted enforced. *Fidelity Credit Assurance Co. v. Cosby*, 1928, 90 Cal. App. 22, 265 Pac. 372; *Pacific Wharf & Storage Co. v. Standard Am. Dredging Co.*, 1920, 184 Cal. 21, 192 Pac. 847.

(4) *Doctrine of generic designation.*

Appellants contend that the evidence showed that the name "KoolVent" had become generic for a certain type of awning, and had thus passed into the public domain when the basic patent expired, and that thus appellants were entitled to use the name.

Appellants' evidence could have established that an awning of the type licensed by KoolVent was referred to in the trade as a "koolvent" type awning. There was no evidence that among consumers the same was true.

Appellants point out that the name KoolVent is applied to a whole line of appliances including various types of awnings and umbrellas. They further point out that the same type awning is made by many others and marketed under a variety of trade-names.

But here the trial judge found against appellants. "'KoolVent' is not a generic term for items mentioned in said Agreement." (Finding 16.) Again, we cannot hold this finding of fact is clearly erroneous on the record before us.

The only questions we have about the judgment concern that portion ordering damages measured by net profits from January 1957 when the agreement was in effect, rather than from August 1, 1957, when the

judgment terminates liability for minimum royalties. This requires appellants to pay damages *and* royalties for this period when the agreement was in effect. The only wrong committed by appellants in this period was default in royalty payments. The judgment should be amended to assess damages for the period January to July 1957 as the higher of either accrued royalties under the agreement, or minimum royalties.[6]

The interlocutory judgment when amended as suggested above, is *affirmed*, and the action remanded for such modification, and for further proceedings for the determination of damages, if any, properly to be awarded. *National Van Lines v. Dean*, 9 Cir., 1956, 237 F. 2d 688, 694.

(Endorsed) Opinion Filed Oct. 20, 1960.

Frank H. Schmid, Clerk.

[6]This point is not argued in Appellants' Brief, but is covered by Specification of Error 11, Appellants' Brief, p. 6.

LICENSE AGREEMENT

This Agreement made this 5th day of October, 19 49 by and between KOOLVENT Metal Awning Corporation of America, a Pennsylvania corporation having a place of business in the Keystone Building, Pittsburgh (22), Pennsylvania, hereinafter called KOOLVENT; and

ALBERT BELSHAW
20640 West Chicago Avenue, Apartment 103
DETROIT, MICHIGAN

hereinafter called LICENSEE;

WITNESSETH:

Whereas KOOLVENT has agreed to grant unto LICENSEE the exclusive right to make and sell KOOLVENT Awnings, as hereinafter defined, subject to the terms and conditions hereinafter set forth;

Now, therefore, in consideration of the mutual covenants and conditions hereinafter set forth, the parties have agreed for themselves, their heirs, successors and assigns, as follows:

(1) Definitions:

(a) The term awning shall be understood to mean a door or window awning, a canopy, a porch or patio roof, a door hood, store front or the like.

(b) A KOOLVENT awning shall mean a structure, the top of which is formed of two tiers or layers of metal strips or slats of channel form, the slats of each tier being spaced apart and arranged in staggered relation with respect to the slats of the other tier, the slats or channels of the upper tier having downturned flanges and the slats or channels of the lower tier having upturned flanges extending past the lower edges of the flanges of the upper tier of channels, the slats or channels of both tiers being supported upon rails or strips located beneath the lower tier. The flanges of the respective channels may be separated to provide ventilation through the top of the awning, or the flanges may be of a structure referred to as "jammed" wherein ventilation is excluded. This agreement pertains to both the ventilated and jammed construction, and is specifically limited to the manufacture and sale of the articles as just described herein.

(2) Territory:

(a) The license or franchise herein given is for the territory comprising the following ~~countries or territories or States~~ STATES:

CALIFORNIA, NEVADA, OREGON AND WASHINGTON

(b) LICENSEE agrees not to sell or otherwise dispose of said KOOLVENT awnings outside the limits of said territory, and not to infringe, either directly or indirectly, on the territorial limits of any other KOOLVENT LICENSEE.

(3) Patents, etc.:

KOOLVENT represents that it has the right to grant the license or franchise contained herein for the territory as aforesaid under the following United States Letters Patent:

Reissue Patent 20975
Patent 2307272
Patent 2442891
Patent D154550 and certain applications for patent now pending.
Reissue Patent 21053

(4) License or Franchise:

KOOLVENT hereby grants LICENSEE the license and franchise to make and sell KOOLVENT awnings as herein described in the aforesaid territory under said patents and applications and to use the name or trade mark KOOLVENT thereon, and to use the name KOOLVENT as a part of LICENSEE's corporate name or business style. KOOLVENT agrees that it will not grant to any other person, firm or corporation any right or license to make or sell the licensed Koolvent awnings in the territory defined herein, to the end that the license or franchise herein given shall be exclusive so long as the terms and conditions hereof are kept and performed.

(5) Marking, Manufacturing Facilities, Sales Effort:

(a) LICENSEE agrees to conspicuously attach to all licensed awnings manufactured under this license or franchise a metal plate or decal bearing the LICENSEE's name and address and the following "Manufactured under one or more of the following patents: Reissue Patent No. 21053 Reissue No. 20975; Pat. No. 2307272; Patent No. 2442891; Patent D154550; other patents pending; and shall also bear the name or trademark KOOLVENT. KOOLVENT reserves the right to specify the form and contents of any such plate or decal and the manner of displaying said trademark.

LICENSEE agrees to establish a plant and a salesroom within 60 days from date hereof and shall have produced its first awning [illegible] and equipment if as and when the demand

(a) The term awning shall be understood to mean a door or window awning, a canopy, a porch or patio roof, a door hood, store front or the like.

(b) A KOOLVENT awning shall mean a structure, the top of which is formed of two tiers or layers of metal strips or slats of channel form, the slats of each tier being spaced apart and arranged in staggered relation with respect to the slats of the other tier, the slats or channels of the upper tier having downturned flanges and the slats or channels of the lower tier having upturned flanges extending past the lower edges of the flanges of the upper tier of channels, the slats or channels of both tiers being supported upon rails or strips located beneath the lower tier. The flanges of the respective channels may be separated to provide ventilation through the top of the awning, or the flanges may be of a structure referred to as "jammed" wherein ventilation is excluded. This agreement pertains to both the ventilated and jammed construction, and is specifically limited to the manufacture and sale of the articles as just described herein.

(2) Territory:

(a) The license or franchise herein given is for the territory comprising the following ~~territory in the United States~~ STATES:

CALIFORNIA, NEVADA, OREGON AND WASHINGTON

(b) LICENSEE agrees not to sell or otherwise dispose of said KOOLVENT awnings outside the limits of said territory, and not to infringe, either directly or indirectly, on the territorial limits of any other KOOLVENT LICENSEE.

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(4) License or Franchise:

KOOLVENT hereby grants LICENSEE the license and franchise to make and sell KOOLVENT awnings as herein described in the aforesaid territory under said patents and applications and to use the name or trade mark KOOLVENT thereon, and to use the name KOOLVENT as a part of LICENSEE's corporate name or business style. KOOLVENT agrees that it will not grant to any other person, firm or corporation any right or license to make or sell the licensed Koolvent awnings in the territory defined herein, to the end that the license or franchise herein given shall be exclusive so long as the terms and conditions hereof are kept and performed.

(5) Marking, Manufacturing Facilities, Sales Effort:

(a) LICENSEE agrees to conspicuously attach to all licensed awnings manufactured under this license or franchise a metal plate or decal bearing the LICENSEE's name and address and the following "Manufactured under one or more of the following patents: _____

Reissue Patent No. 21053

Reissue No. 20975; Pat. No. 2307272; Patent No. 2442891; Patent D154550; other patents pending; and shall also bear the name or trademark KOOLVENT. KOOLVENT reserves the right to specify the form and contents of any such plate or decal and the manner of displaying said trademark.

(b) LICENSEE agrees to establish a plant and a salesroom within 60 days from date hereof and shall have produced its first awning within 90 days from the date hereof. LICENSEE agrees to increase its plant, machinery and equipment if, as and when the demand for the articles licensed hereunder or the proper promotion of sales in the licensed territory shall necessitate or require such additional facilities.

(c) LICENSEE agrees to diligently work and service the territory hereinabove set forth to the end that the licensed awnings shall be well advertised and marketed as extensively as possible in such territory, as defined in Paragraph (6) (h).

(d) If LICENSEE should establish a Dealer or Dealers, it shall submit its Dealer Contract form to KOOLVENT for approval. All such contracts shall include a requirement that the Dealer spend a minimum of Five Percent (5%) of Retail Dollar volume of sales for advertising and shall also contain notice to the Dealer that the LICENSEE holds his license by virtue of an agreement with KOOLVENT.

(6) Payment, Royalty and Reports:

(a) At or before the execution hereof, LICENSEE has paid KOOLVENT the sum of $35,000.00 (_____) Dollars for services to be rendered now and hereafter by KOOLVENT.

(b) In addition thereto, LICENSEE shall pay to KOOLVENT a royalty equal to Twelve and one half (12½) cents per square foot for each square foot of the area comprising the upper surface of the awning included in both layers of slats on all awnings sold by LICENSEE under this franchise. The square feet in said upper surface are to be computed by multiplying the length of the top slats (excluding valance length and any side wing areas) by the width of the awning between its side edges. The area of irregular shaped awnings shall be figured on an acceptable engineering basis. Said royalties are to be paid monthly on the tenth day of each month on installations made during the preceding month.

(c) For the purpose of this agreement and for the rendering of reports and the payment of royalty an awning shall be deemed to be sold when it is installed, if installed by LICENSEE, or when shipped, if shipped for installation by a dealer or purchaser.

Opposed by Ex. 20.

3/11/57

(d) For the contract year ending December 31, 1950, LICENSEE agrees to pay KOOLVENT a minimum annual royalty of no less than $15,000.00 ( ) Dollars. For the next following contract year, the minimum royalty shall be the sum of Fifteen Thousand($15,000.00) ( ) Dollars. For the third contract year and for each year thereafter, the minimum royalty shall be the sum of Fifteen Thousand ($15,000.00) Dollars. The monthly royalty payment required by clause (b) of this paragraph shall not be less than one-twelfth of said minimum annual royalty; but any excess in earned royalties one month shall be applicable or credited to any other month in the same contract year.

(e) If LICENSEE shall fail or refuse to pay said minimum royalty when due and shall not, within the thirty (30) days thereafter pay the difference between the amount of royalties earned and said minimum, KOOLVENT may, at its option, terminate this license or declare the same to be non-exclusive in the territory herein defined. Exercise of such option shall not relieve LICENSEE of liability for payment of said minimum annual royalty.

(f) LICENSEE agrees to furnish and submit to KOOLVENT at each of the times said royalty payments are due, written reports sworn to if required by KOOLVENT, showing the gross sales in dollars of products sold by it under this franchise during the month in question, the net selling price thereof, to whom sold and their address, including the county, together with the total number of square feet of awnings sold, computed as stated in Paragraph 6b hereinabove, said reports to itemize each sale so as to show the total number of square feet in such sale. In addition, LICENSEE shall send KOOLVENT each month a carbon copy of the contract of every sale made through its own retail sales department or by its Dealers, which copies shall be attached to and form an integral part of the monthly royalty report.

(g) LICENSEE shall not be required to pay a royalty on any awnings that are lost or damaged in transit, or returned without LICENSEE receiving payment therefor or which are required to be replaced without charge to the customer. The reports set forth in Paragraph (f) of this article shall specify credits claimed for any such deduction.

(h) KOOLVENT reserves the right to withdraw the license and franchise herein given as to any county or counties in the licensed territory after one year from the date of this agreement, if LICENSEE has failed to satisfactorily develop the business in such county or counties, or has failed to exercise due diligence as required by Paragraph (5) (c). Whether LICENSEE has so failed may be determined by dividing the aforesaid annual minimum royalty by the total number of counties, to ascertain the minimum allocable to any county, having regard however for differences in population in the various counties. If said determination indicates that the royalty actually earned on sales in said county or counties is less than said county minimum, then due diligence shall be deemed not to have been exercised; and in such case KOOLVENT may revoke the franchise as to said county, unless within the next following year, the earned royalties are equal to or more than said county minimum.

(7) Records and Audits:

LICENSEE agrees to keep true, correct and complete books of accounts and records showing the quantity of products manufactured, the net selling price thereof, and to whom sold under this franchise, together with the total number of square feet of awnings sold, computed as stated in Paragraph (6) hereinabove, which books and records shall be open to inspection by KOOLVENT or those designated by KOOLVENT at all reasonable times during business hours for the purpose of verifying said reports and royalty payments made by the LICENSEE to KOOLVENT. LICENSEE shall employ a certified public accountant to set up its books of account who shall render quarterly reports certifying to the accuracy of the reports furnished by the LICENSEE.

(8) Acknowledgements:

(a) LICENSEE herein acknowledges the validity of the patents listed above and any patents to issue on said applications or improvements thereon under which it is licensed and hereby agrees not to contest the validity of any of said patents during the terms for which they may be granted. LICENSEE agrees to abide by the terms and provisions of this agreement and to take no action inconsistent with any of the terms thereof.

(b) The name "KOOLVENT" is recognized by the parties hereto as the sole and exclusive property of KOOLVENT, and such trade name constitutes an integral part and adjunct of the franchise hereby granted. Termination of this contract shall terminate all right to the use of the name "KOOLVENT", and the sole and exclusive use thereof shall in such case revert to KOOLVENT. Said mark shall not be used on any articles which do not meet with the specifications of KOOLVENT as to design, quality of workmanship and material.

(c) LICENSEE agrees that it will not undertake to secure any State or Federal Trademark registration of the name "KOOLVENT" or any variation thereof, or of any trademark in which the name "KOOLVENT" appears, nor will it secure the copyright of any print or label employing the same, and that as a condition of this agreement it will assert no adverse claim to said name during the life of this agreement or after its expiration.

(9) Term and Termination:

(a) This license shall extend to the full end of the term of any of the aforesaid patents, and to the end of the term of any patents that may be granted on present or future applications, or for so long as LICENSEE continues to use the trade mark or name KOOLVENT on any awnings or products made and sold hereunder.

(b) KOOLVENT may terminate this agreement at any time that the LICENSEE shall fail to comply with any of the terms and provisions of this instrument or fail to pay KOOLVENT for indebtedness on account of merchandise, supplies, or advertising literature purchased from KOOLVENT; provided that before such termination shall become effective, notice of such default shall be given by KOOLVENT to the LICENSEE at least thirty (30) days in advance of the action of cancellation of this contract, and if the default is corrected within such thirty day period, then KOOLVENT shall not cancel the contract for that particular default then specified, though the right to cancel in the event of any such default or any other default later occurring shall be vested in KOOLVENT unprejudiced by the correcting of such prior default within the thirty-day period. No cancellation of this agreement shall affect the liability of the LICENSEE for royalties either actual or minimum, whichever amount is greater, remaining unpaid at the time of cancellation.

(c) LICENSEE agrees that this agreement shall be binding upon and inure to the benefit of KOOLVENT, its successors and assigns, and the franchise hereby granted or any interest therein, cannot be transferred, assigned, pledged, hypothecated or otherwise disposed of by LICENSEE to any other person, firm or corporation, except with the written consent of KOOLVENT. If LICENSEE shall be a corporation, the capital stock of which is predominantly owned or controlled by an individual, then it is understood and agreed that this license may not be transferred by the transfer of his capital stock, without the written consent of KOOLVENT.

(d) If LICENSEE shall be declared insolvent, or shall be adjudicated a bankrupt, or in the event any Federal or State Court shall appoint a Receiver or Trustee for LICENSEE, or if LICENSEE shall make an assignment for the benefit of creditors, then in any of these events, KOOLVENT may, at its option, without any notice whatever immediately terminate this agreement and this agreement shall

determined by dividing the aforesaid annual minimum royalty by the total number of counties, to ascertain the minimum allocable to any county, having regard however for differences in population in the various counties. If said determination indicates that the royalty actually earned on sales in said county or counties is less than said county minimum, then due diligence shall be deemed not to have been exercised; and in such case KOOLVENT may revoke the franchise as to said county, unless within the next following year, the earned royalties are equal to or more than said county minimum.

(7) Records and Audits:

LICENSEE agrees to keep true, correct and complete books of accounts and records showing the quantity of products manufactured, the net selling price thereof, and to whom sold under this franchise, together with the total number of square feet of awnings sold, computed as stated in Paragraph (6) hereinabove, which books and records shall be open to inspection by KOOLVENT or those designated by KOOLVENT at all reasonable times during business hours for the purpose of verifying said reports and royalty payments made by the LICENSEE to KOOLVENT. LICENSEE shall employ a certified public accountant to set up its books of account who shall render quarterly reports certifying to the accuracy of the reports furnished by the LICENSEE.

(8) Acknowledgements:

(a) LICENSEE herein acknowledges the validity of the patents listed above and any patents to issue on said applications or improvements thereon under which it is licensed and hereby agrees not to contest the validity of any of said patents during the terms for which they may be granted. LICENSEE agrees to abide by the terms and provisions of this agreement and to take no action inconsistent with any of the terms thereof.

(b) The name "KOOLVENT" is recognized by the parties hereto as the sole and exclusive property of KOOLVENT, and such trade name constitutes an integral part and adjunct of the franchise hereby granted. Termination of this contract shall terminate all right to the use of the name "KOOLVENT", and the sole and exclusive use thereof shall in such case revert to KOOLVENT. Said mark shall not be used on any articles which do not meet with the specifications of KOOLVENT as to design, quality of workmanship and material.

(c) LICENSEE agrees that it will not undertake to secure any State or Federal Trademark registration of the name "KOOLVENT" or any variation thereof, or of any trademark in which the name "KOOLVENT" appears, nor will it secure the copyright of any print or label employing the same, and that as a condition of this agreement it will assert no adverse claim to said name during the life of this agreement or after its expiration.

(9) Term and Termination:

(a) This license shall extend to the full end of the term of any of the aforesaid patents, and to the end of the term of any patents that may be granted on present or future applications, or for so long as LICENSEE continues to use the trade mark or name KOOLVENT on any awnings or products made and sold hereunder.

(b) KOOLVENT may terminate this agreement at any time that the LICENSEE shall fail to comply with any of the terms and provisions of this instrument or fail to pay KOOLVENT for indebtedness on account of merchandise, supplies, or advertising literature purchased from KOOLVENT; provided that before such termination shall become effective, notice of such default shall be given by KOOLVENT to the LICENSEE at least thirty (30) days in advance of the action of cancellation of this contract, and if the default is corrected within such thirty day period, then KOOLVENT shall not cancel the contract for that particular default then specified, though the right to cancel in the event of any such default or any other default later occurring shall be vested in KOOLVENT unprejudiced by the correcting of such prior default within the thirty-day period. No cancellation of this agreement shall affect the liability of the LICENSEE for royalties either actual or minimum, whichever amount is greater, remaining unpaid at the time of cancellation.

(c) LICENSEE agrees that this agreement shall be binding upon and inure to the benefit of KOOLVENT, its successors and assigns, and the franchise hereby granted or any interest therein, cannot be transferred, assigned, pledged, hypothecated or otherwise disposed of by LICENSEE to any other person, firm or corporation, except with the written consent of KOOLVENT. If LICENSEE shall be a corporation, the capital stock of which is predominantly owned or controlled by an individual, then it is understood and agreed that this license may not be transferred by the transfer of his capital stock, without the written consent of KOOLVENT.

(d) If LICENSEE shall be declared insolvent, or shall be adjudicated a bankrupt, or in the event any Federal or State Court shall appoint a Receiver or Trustee for LICENSEE, or if LICENSEE shall make an assignment for the benefit of creditors, then in any of these events, KOOLVENT may, at its option, without any notice whatever, immediately terminate this agreement and this agreement shall be considered cancelled and held for nought.

(e) In the event of termination, LICENSEE, its principals, officers, or managing directors shall not directly or indirectly engage in the awning business in said territory or in the territory of any other KOOLVENT licensee for the period of two years following the date of such termination.

(10) Engineering and Improvements:

(a) KOOLVENT shall provide LICENSEE with engineering counsel, drawings and construction information as have been heretofore furnished to other Licensees of KOOLVENT in order to enable LICENSEE to become established and carry on its operations under this franchise. No claim of disagreement with or inadequacy of said counsel, drawings or information, nor of failure on the part of KOOLVENT so to cooperate with LICENSEE shall be set up by it in the event of default in performance of any of the covenants hereof, it being understood that KOOLVENT has shown and will show LICENSEE upon request, all details of plant, sales and office operation of other Licensees, before the execution of this agreement.

(b) KOOLVENT shall notify LICENSEE of any improvement or further invention it may make, discover or acquire relating to said awnings and shall disclose to LICENSEE the manner of making and using the same; and LICENSEE shall be at liberty to manufacture and sell said awnings containing any such improvement or further invention during the life of this contract free of additional royalties, charges, or payments whatsoever; except that if KOOLVENT shall obtain rights to an improvement or further invention of a third party not connected with KOOLVENT, or any of its Licensees, whereby said awnings may be improved, and for which KOOLVENT is obliged to pay royalty, then and in such case, LICENSEE shall be obliged to pay such additional royalty only if it desires to avail itself of such rights.

(c) In the event LICENSEE or any of its employees shall make or acquire any invention or improvement relating to the licensed inventions, then the LICENSEE shall disclose and communicate such invention or improvement to KOOLVENT and shall aid and assist in acquiring patent protection thereof at the expense of KOOLVENT. Any such invention or improvement shall be assigned to

KOOLVENT, together with all patent rights thereunder so that LICENSEE and all other Licensees of KOOLVENT shall have a non-cancellable royalty-free license as to any such inventions or improvements during the life of this agreement.

(d) LICENSEE agrees that each of its employees, owners and officers will sign a form which shall substantially embody the provisions of the immediately preceding clause, which form shall operate to effect the assignment therein referred to.

(11) **Patent or Trade-Mark Infringement:**

(a) In the event of infringement of any of the subject patents or trade-mark under which this franchise is issued within the territory described above LICENSEE agrees to report such infringement in writing to KOOLVENT within 30 days.

(b) If LICENSEE shall be sued for patent infringement by any third party by reason of the manufacture and sale of KOOLVENT awnings made under this license according to KOOLVENT's instructions or specifications, or for the use of the name "KOOLVENT" in the manner and form approved by KOOLVENT, KOOLVENT will at its own expense defend any such suit, provided however that KOOLVENT shall be notified of any threat of litigation that may be made prior to suit and be notified of the filing of the suit within ten days from service of such suit upon LICENSEE, KOOLVENT'S liability in any case to be limited to said defense or at its option, to the expense thereof.

(12) **Miscellaneous:**

(a) LICENSEE, its principals, officers or managing directors will not, directly or indirectly, during the life of this contract make or sell any other awnings. This provision shall apply particularly to said principals, officers, or managing directors of LICENSEE more especially, in case of severance of such relationship, for a period of two years from the date of such severance.

(b) This franchise agreement shall become effective upon execution in behalf of KOOLVENT by the President of KOOLVENT and attested to by its Secretary.

(c) Time and strict observance of territory are intended to be and are of the essence of this agreement.

(d) Any notice required by this agreement shall be considered given or served when mailed by registered mail, "Return Receipt Requested," by either party to the other at the respective addresses herein given unless notified in writing of a subsequent change of address.

(e) This agreement shall be construed under the laws of the State of Pennsylvania.

(f) LICENSEE will comply at its own expense with all Federal, State and local laws now in force or hereafter passed.

(g) Nothing herein contained is intended to give LICENSEE the status of an agent of KOOLVENT and LICENSEE shall represent itself only as an independent contractor.

(h) LICENSEE agrees that it will not engage in the manufacture of any other product or commodity.

(i) Nothing herein shall preclude KOOLVENT or its designee from making or selling in said territory metal umbrellas bearing the name KOOLVENT, and LICENSEE is given no right to make KOOLVENT type metal umbrellas.

(j) This agreement is intended to be complete and any agreement at variance therewith shall be in writing, duly executed.

IN WITNESS WHEREOF, the parties hereto have signed their names and affixed their seals hereunto, and unto a duplicate and triplicate hereof, this 5th day of October, A.D. 1949.

ALBERT BRUNNER

Attest: Jane C. Bauer

Attest

M. Harrison
Secretary

KOOLVENT METAL AWNING CORPORATION OF AMERICA

by S B Korman
President

STATE OF PENNSYLVANIA }
COUNTY OF ALLEGHENY } SS

BEFORE ME, the undersigned authority, on this day personally appeared S. B. Korman, President of KOOLVENT Metal Awning Corporation of America, a corporation, and M. Harrison, Secretary of said corporation, known to me to be the persons and officers whose names are subscribed to the foregoing instrument and acknowledged to me that they executed the same for the purposes and consideration therein expressed and in the capacities therein stated as the act and deed of such corporation.

Given under my hand and seal of office, this the 5th day of October, 1949.

Notary Public

STATE OF
COUNTY OF } SS

BEFORE ME, the undersigned authority, on this day personally appeared

President of a corporation, and

Secretary of said corporation, known to me to be the persons and officers whose names are subscribed to the foregoing instrument and

only as an independent contractor.

(h) LICENSEE agrees that it will not engage in the manufacture of any other product or commodity.

(i) Nothing herein shall preclude KOOLVENT or its designee from making or selling in said territory metal umbrellas bearing the name KOOLVENT, and LICENSEE is given no right to make KOOLVENT type metal umbrellas.

(j) This agreement is intended to be complete and any agreement at variance therewith shall be in writing, duly executed.

IN WITNESS WHEREOF, the parties hereto have signed their names and affixed their seals hereunto, and unto a duplicate and triplicate hereof, this 5th day of October, A.D. 19 49.

Attest: Jane A. Bauer

ALBERT BELCHAK

Attest

M. Harrison
Secretary

KOOLVENT METAL AWNING CORPORATION OF AMERICA

by S B Korman
President

STATE OF PENNSYLVANIA }
COUNTY OF ALLEGHENY } SS

BEFORE ME, the undersigned authority, on this day personally appeared S. B. Korman, President of KOOLVENT Metal Awning Corporation of America, a corporation, and M. Harrison, Secretary of said corporation, known to me to be the persons and officers whose names are subscribed to the foregoing instrument and acknowledged to me that they executed the same for the purposes and consideration therein expressed and in the capacities therein stated as the act and deed of such corporation.

Given under my hand and seal of office, this the 5th day of October 1949

Notary Public

STATE OF
COUNTY OF } SS

BEFORE ME, the undersigned authority, on this day personally appeared
President of a corporation, and
Secretary of said corporation, known to me to be the persons and officers whose names are subscribed to the foregoing instrument and acknowledged to me that they executed the same for the purposes and consideration therein expressed and in the capacities therein stated as the act and deed of such corporation.

Given under my hand and seal of office, this the _____ day of _____, A.D. 19_____

Notary Public

STATE OF Michigan
COUNTY OF Wayne } SS

BEFORE ME, the undersigned authority, on this day personally appeared Albert Belchak known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes and consideration therein expressed.

WITNESS my hand and seal of office at Detroit, Mich. this 5th day of October A.D. 19 49

Notary Public
Wayne Co. Michigan
My commission expires

APPENDIX 5.

June 18, 1956

Messrs. George Zajicek, Jr.
and Don R. Zajicek
c/o Mr. Albert H. Hill
KoolVent of California, Inc.
5510 W. 104th Street
Los Angeles 45, California

Gentlemen:

This is with reference to an "amendment" dated October 5, 1949 to a license agreement of the same date between KoolVent Metal Awning Corporation of America as licensor and Albert Belshaw of Detroit as licensee.

(1) Said amendment referred to a limitation whereby said licensee would be required to make awnings of the "jammed" pan type in California. Said limitation has not been in effect for a number of years, and in fact, we do not believe Belshaw's successor, KoolVent of California, has been making awnings of the "jammed" pan type since that time.

(2) Said amendment refers also to a license issued to a prior licensee of five California counties in which there was at the time a question of default on the part of the licensee for those counties. As a matter of fact, that license was abandoned shortly thereafter.

Neither of the above two restrictions is now in effect, and this letter will be your written assurance thereof.

For your further information: the restrictions in the first sentence of section 12 clause (a) of the License

Agreement and in clause (h) of the same section are no longer in effect.

This letter is sent you in quadruplicate so that all copies may be signed by you and by us, with two copies to be returned to us, with all copies to be attached to the License Agreements.

KoolVent Metal Awning
Corporation of America,

By (illegible)
Vice President

Coleman Harrison,
Secretary.

Agreed to:
George A. Zajicek, Jr.
Don R. Zajicek.

Certificate of Service.

Service of this Petition has been made upon Koolvent Metal Awning Corporation of America by mailing copies thereof by regular United States mail with postage prepaid to its attorney, Ben Gould, 3460 Wilshire Boulevard, Los Angeles 5, California, this 13th day of February, 1961.

ALBERT M. HERZIG,
Attorney for Petitioner.

APPENDIX 6.

Judgment.

United States Court of Appeals for the Ninth Circuit.

George Zajicek, Jr., et al., Appellants, vs. Kool Vent Metal Awning Corporation of America, a corporation, Appellee. No. 16647.

Appeal from the United States District Court for the Southern District of California, Central Division.

This cause came on to be heard on the Transcript of Record from the United States District Court for the Southern District of California, Central Division, and was duly submitted.

On consideration whereof, it is now here ordered and adjudged by this Court, that the judgment of the said District Court in this cause should be amended to assess damages for the period January to July 1957 as the higher of either accrued royalties under the agreement, or minimum royalties, and when amended the judgment of the said District Court in this cause be, and hereby is affirmed, with costs in favor of the Appellee and against the Appellants, and that this cause be, and hereby is remanded to the said District Court for further proceedings for the determination of damages, if any, properly to be awarded.

IT IS FURTHER ORDERED and adjudged by this Court, that the Appellee recover against the Appellants for its costs herein expended and have execution therefor.

(Endorsed) Judgment. Filed and entered: October 20, 1960. Frank H. Schmid, Clerk.

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IN THE

Supreme Court of the United States

October Term, 1960.
No. 728.

GEORGE ZAJICEK, JR., DON R. ZAJICEK, KOOLVENT AWNINGS OF AMERICA, INC., a corporation, KOOLVENT OF CALIFORNIA, INC., a corporation, and KOOLVENT AWNINGS OF LOS ANGELES, INC., a corporation,
Petitioners,

vs.

KOOLVENT METAL AWNING CORPORATION OF AMERICA, a corporation,
Respondent.

BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

ARGUMENT.

The Supreme Court of the United States Has Already Decided the Questions Raised by Petitioner.

(a) The decision of the Circuit Court of Appeals for the Ninth Circuit, from which Petitioner seeks the Writ, follows quite broadly the decision of the Supreme Court of the United States in the case of *Kelly v. Kosuga,* 358 U. S. 516, 3 L. Ed. 2d 475, 79 S. Ct. 429, in which Justice Brennan delivered the opinion of the Court, and in which it is pointed out on Page 519 thereof, that in the prior case of *D. R. Wilder Mfg.*

Co. v. Corn Products Refining Co., 236 U. S. 165, handed down by the Supreme Court, the Court there observed that the Sherman Act's express remedies could not be added to judicially by including the avoidance of private contracts as a sanction.

The Court says further on page 520:

> "Past the point where the judgment of the Court would itself be enforcing the precise conduct made unlawful by the Act, the Courts are to be guided by the overriding general policy, as Mr. Justice Holmes put it, 'of preventing people from getting other people's property for nothing when they purport to be buying it.'"

The Court also says on page 521:

> ". . . it can hardly be said to enforce a violation of the Act to give legal effect to a completed sale of onions at a fair price. And while analysis in terms of 'divisibility' or from other verbal formula may well be circular, see Corbin, Contracts, Section 1520, in any event where, as here, a lawful sale for a fair consideration constitutes an intelligible economic transaction in itself, we do not think it inappropriate or violative of the intent of the parties to give it effect even though it furnished the occasion for a restrictive agreement of the sort herein in question."

See also:

Beloit v. Culligan, 274 F. 2d 29, 34.

In the present case, Plaintiff seeks compensation as provided in the contract for the use by Defendants of Plaintiff's Patents, Trademarks and Good Will, and

in addition, seeks compensation for the continued use by Defendants of said Patents, Trademarks and Good Will after termination of the contract, against the will of the Plaintiff.

Enforcement of the contract and enforcement of the rights of Plaintiff after its termination do not result in enforcing provisions which are in Restraint of Trade.

(b) The judgment of the trial Court was not to the effect that the clause 9(e) was 'automatically' severable. The Amended Complaint [R. 25-26] alleges, as follows:

> "That at the time when the Agreement was entered into between Plaintiff and the said Albert Belshaw, no part of the consideration for the Agreement was paid, or agreed to be paid to Plaintiff, for the covenants contained in Paragraph 9 (e) of said Agreement, and no part of the royalties provided to be paid by the said Albert Belshaw to Plaintiff under the terms of said Agreement, whether by way of minimum royalty or by way of royalty based upon sales by said Albert Belshaw was agreed to be paid to Plaintiff in consideration of the provisions of said Paragraph 9(e) of the Agreement, nor did the same constitute any inducement to the said Albert Belshaw for entering into said Agreement, and said provision 9 (e) was inserted in the Agreement after Plaintiff and said Albert Belshaw had agreed upon the royalty payable to Plaintiff whether by way of minimum royalty or calculated upon sales by said Albert Belshaw, and Plaintiff hereby waives any claim to any benefit to it by virtue of the provisions of Paragraph 9(e)."

This Agreement was assigned to Defendants without any consideration passing to Plaintiff except for Defendants' assumption of its conditions. [Ex. E attached to the Amended Complaint.] (See App. of Appellee's Brief before the Circuit Court.)

While no specific finding on this issue was made, Finding No. 15, and Finding No. 17 [Tr. 104-105], would constitute an implied Finding in support of this issue.

Murray v. Superior Court, 284 P. 2d 1, 6, 44 Cal. 2d 611, 619;

Bacon v. Bacon, 194 P. 2d 697, 704, 32 Cal. 2d 131, 143.

This indicates that there was no finding of "automatic" severability.

(c) With reference to the matter of severability we cite the case of *Oregon v. Winsor*, 20 Wall. (87 U. S.) 64, 70, 20 L. Ed. 464, as follows:

> "Agreements in restraint of trade, whether under seal or not, are divisible and accordingly it has been held that when such an agreement contains a stipulation which is capable of being construed divisibly and one part thereof is void as being in restraint of trade whilst the other is not, the Court will give effect to the latter and will not hold the agreement to be void altogether."

(d) Petitioner contends that the consideration is so integrated as to include clause 9(e) without possibility of severance. In that connection we cite cases on independent covenants, as follows:

Steak House v. Barnett, 65 So. 2d 736, 737, in which the Court says:

> "A covenant is independent where it does not go to the whole consideration of the contract but is only subordinate and incidental to its main purpose."

And again, in *Lincoln Trust v. Nathan*, 74 S. W. 1007, 1010, in which the Court says:

> "Whether a covenant is dependent or independent depends upon the intention of the parties."

We also cite the dissenting opinion in *McGregor v. Westinghouse*, 329 U. S. 402, 415, 91 L. Ed. 380, 67 S. Ct. 421, in which the Court says:

> "Considerations that determine the granting of a license on payment of royalties are distinct from those that underlie an additional clause for price fixing. They are not interdependent in fact and were not so treated by the parties. No artificial notion regarding consideration requires that they be treated as interdependent. On lesser considerations of policy than have guided the course of Patent Law, this Court has refused to treat separate provisions as integrated."

And, in the case of *Pollak v. Brush*, 128 U. S. 446, 455, the Court says:

> "Whether covenants are to be considered dependent or independent is to be considered according to the intention of the parties."

It is respectfully submitted that the trial Court made an implied Finding of Fact that the remainder of the contract was not dependent on clause 9(e).

Illegality of Clause 10(c).

In connection with this clause, we respectfully submit that the finding of the trial Court should not be disturbed.

See Finding No. 17 [Tr. 105], as follows:

> "It is not true that the enforcement of said Agreement would further the unlawful purposes of Plaintiff in violation of the anti-monopoly laws of the United States or the State of California."

It is urged that where this is an issue before the trial Court, the Finding should not be disturbed unless it is contended that it is necessary to determine whether or not this is a question of fact to be determined by the trial Court, or whether from the state of the record, as a matter of law the Finding should be to the contrary.

It is respectfully submitted that the burden being upon the Defendants, the Court found there was not sufficient evidence that the "grant back" provisions under the circumstances shown at the trial constituted restraint of trade or tended to create a monopoly.

Use of Trademark in Antitrust Violation.

The judgment contains in it no elements which would aid or preserve antitrust activities and the Supreme Court case cited by Petitioner is authority only for the fact that "a trade mark cannot be legally used as a device for Sherman Act violation."

In the *Timken Roller Bearing Co. v. United States,* 341 U. S. 503, cited by Petitioner, the Plaintiff was seeking to justify its restraint of trade activities on the ground that it was necessary to establish its trademark. This has no resemblance to the situation in the subject case.

It is respectfully submitted that the Petition be denied.

BEN GOULD and
JOSEPH W. AIDLIN,
By BEN GOULD,
Attorneys for Respondent.